Review of the Financial Plan of the City of New York

Report 16-2022

OFFICE OF THE NEW YORK STATE COMPTROLLER
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December 2021

Message from the Comptroller

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Since March 2020, New York City has grappled with a catastrophic public health crisis along with multiple economic and social disruptions arising from the COVID-19 pandemic. The pandemic remains a threat to our health and our economy, even as we make valuable progress toward a return to normality.

More than 20 months after the initial devastation in New York City, the economy is maintaining a slow but sustained recovery. The City continues to regain jobs and attract visitors and commuters, which have all recently reached post-pandemic highs. Vaccination and testing availabilty, federal relief and stimulus funds, and State and local programs are helping families and businesses take important steps to rebuild and renew their communities. The road back will take time, however, and will include challenges along the way.

Over the last year, I joined in the calls for federal relief to provide a "fiscal bridge" to ensure that New York City could manage the short-term costs of the pandemic and to spur renewed economic activity to revive revenues. Federal relief is expected to fund $13.7 billion of spending through fiscal year 2025, representing a massive and necessary boost to City finances. The prudent use of these funds will play an important role in the shape of its fiscal recovery. Ultimately, however, it is wise management of the City's own resources and programs that will be necessary to achieve a sustainable long-term recovery.

The November budget modification and financial plan provides good news for the City, as strong market returns have resulted in significant reductions in the City's pension liability, thereby reducing budget gaps by nearly a third from the levels projected in June. The City should capitalize on this good fortune and be proactive, balancing efforts to boost recovery and provide services to those who remain in need with the steps needed to ensure long-term stuctural budgetary balance, in order to continue providing high-quality services in the future. Setting aside resources to address unexpected challenges, including new spending obligations, will strengthen New York City's fiscal foundation and keep the City attractive to residents and create economic opportunity for all.

New York City and its new mayoral administration face an important moment in the City's history. Choices made today will have long-lasting implications for the City's finances and economy. Elected officials, policy experts, advocates and community leaders must work together to ensure a robust, inclusive recovery and a return to structural budget balance over the long term.

Thomas P. DiNapoli
State Comptroller

Contents

I. Executive Summary

On November 30, 2021, the City released its seventh budgetary update since the COVID-19 pandemic began, its modified November 2021 financial plan (the “November Plan”). The City’s finances have experienced considerable fluctuation throughout this time, fueled by volatility in everything from employment to federal aid. The November Plan reflects many of these same factors and the City’s evolving response.

The Plan continues to add funds to mitigate the effects of an uneven recovery, while revising economic expectations, planning for slower employment gains but faster growth in economic output. Amid continued economic uncertainty, and despite financial plan risks from recurring and newly created spending, the incoming mayoral administration and City Council have an opportunity to be proactive in managing the budget and ensuring long-term fiscal stability.

The City now forecasts a surplus of $965 million in the fiscal year ending in June 2022 (FY 2022), based largely on the receipt of $750 million in unrestricted federal aid in the current year, through federal reimbursements for pandemic-related expenses that were paid with City fund revenues in FY 2021. Out-year gaps, which averaged $4 billion from FY 2023 through FY2025 in the Adopted Budget in June 2021 (the “June Plan”), were narrowed substantially to an average of $2.6 billion, or 3.6 percent of City-Fund revenues, the lowest level since FY 2016. (See Figure 1 below.) Unrestricted federal aid in FY 2022, and pension investment return of nearly 26 percent in FY 2021 that reduced the City’s pension liability and associated planned contributions, are the main drivers of the decline.

Despite the most recent positive news, the Office of the State Comptroller (OSC) has identified several risks that could pose challenges to the City’s budget in the future. On a net basis, OSC has identified risks that could increase City spending by more than $2.2 billion in FY 2023, $3 billion in FY 2024, and $3.3 billion in FY 2025, fueling gaps that could average more than $5 billion annually beginning in FY 2023. (See Figure 2.)

Risks associated with the Department of Education for transportation costs, Carter cases (involving students with disabilities), and charter schools combined would total $782 million in FY 2023 and would exceed $1.1 billion annually by FY 2025. These spending areas fueled higher-than-projected spending growth even prior to the pandemic.

In addition, housing and homeless support enhancements over the last year for rental assistance, single-adult shelters, prevailing wages for Department of Homeless Services security guards, and homeless outreach and wellness efforts are expected to exceed City projections by $390 million annually beginning in FY 2023. Subsidies for the MTA that are not included in the plan amount to an additional $220 million annually by FY 2025, which include spending for the Fair Fares program, MTA paratransit and MTA Bus operations.

Two other risks to the November Plan, in combination reaching more than $1 billion per year beginning in FY 2023, are associated with management of the City’s workforce. OSC projects that unbudgeted spending growth for overtime will exceed City projections by more than $500 million annually over the duration of the financial plan. Another risk associated with managing the City’s workforce is an earmark for $500 million in unspecified labor savings, a reduction from $1 billion which OSC had noted as a risk in the June Plan. At the same time, the City has used federal aid to fund new recurring expenses that could add spending of more than $1 billion in FY 2026, outside of the financial plan period.

In addition to these quantifiable risks, other potential negative economic circumstances are

Hyman Decl. Ex. X- 4

also not anticipated in the plan. While the City's current economic assumptions over the plan are justifiable, they also increase the likelihood of downside risk in the out-years. Such scenarios include a slowdown in the financial markets, sustained inflation and supply chain woes, or an extended period of managing the virus that continues to require changes in the behavior of individuals and businesses.

Even during the strongest expansion prior to the pandemic, from 2010 to 2019, the City added fewer than 100,000 jobs annually. Assuming a similar annual employment growth trajectory in this case, the City would reach pre-pandemic levels of employment by the first quarter of 2027. This downside risk requires the City to be better prepared through the set-aside of reserves and other funds, where possible, and to identify options for budgetary flexibility in case economic outcomes lag the City's projections.

To this point, the City's revenues have come in above June projections, but well below the average November adjustment over the last decade, suggesting one source of regular upside for the City's budget, its conservative revenue projections, may prove to be less of a bulwark against spending growth than in past years. If this trend were to continue, the City would need to refocus on managing expenditures within more significant resource constraints than it has faced in the recent past.

There are ways the City can begin to prepare for potential changes to resource constraints. One source of savings in the current year has been staffing. Offsets to the budget risks in FY 2022 from reduced staffing expenditures could reach more than $1 billion. The current state of the City's workforce and the expiration of the City's collective bargaining agreements for many employees provide the incoming mayoral administration with an opportunity to work with the City's unions to agree to fund contracts in a fiscally responsible way going forward, while still allowing for high-quality service delivery.

The Mayor-elect has also publicly announced support for the reinstatement of a "Program to Eliminate the Gap," which is a set of revenue increases and spending reductions that agencies work on with the City's Office of Management and Budget to reduce the size of future budget gaps. While the announced targets of 3 to 5 percent may be difficult for some agencies to achieve while maintaining services, the identification of potential efficiencies and the prioritization of program activities are important steps forward in advancing fiscal discipline in the face of potential resource constraints. The November plan did not include any efficiencies in its savings program and recent savings initiatives have not been clearly linked to performance.

The City has budgeted for the use of $13.7 billion in federal aid, but $8.8 billion is planned to be spent in FY 2022, leaving less than $5 billion over the remaining three years. The City may be able to push unspent funds into the out-years to reduce gaps further.

Reviewing and appropriately budgeting for planned spending, identifying available federal aid and identifying options to eliminate the City's out-year gaps are concrete steps to begin creating flexibility to manage the City's budget amid the continuing pandemic and recovery in their ensuing stages. The approach may also allow the incoming administration to route funds to newly proposed initiatives to tackle the City's evolving challenges and take advantage of opportunities to pursue growth. Fixing the damage from COVID-19 will take time, and efforts to boost the short-term economic outlook in a fiscally responsible manner will leave the City in a better position to achieve and sustain budgetary balance, while providing needed public services to maintain the City's quality of life and competitiveness over the long term.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2022	FY 2023	FY 2024	FY 2025
Revenues				
Taxes				
General Property Tax	$ 29,284	$ 30,042	$ 30,471	$ 30,881
Other Taxes	32,222	34,674	36,372	37,833
Tax Audit Revenue	921	721	721	721
Subtotal: Taxes	$ 62,427	$ 65,437	$ 67,564	$ 69,435
Miscellaneous Revenues	7,140	6,531	6,538	6,567
Unrestricted Intergovernmental Aid	750	- - -	- - -	- - -
Less: Intra-City Revenue	(2,084)	(1,449)	(1,450)	(1,444)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 68,218	$ 70,504	$ 72,637	$ 74,543
Other Categorical Grants	1,120	993	991	990
Inter-Fund Revenues	729	732	730	730
Federal Categorical Grants	16,514	9,284	8,613	7,915
State Categorical Grants	16,266	16,412	16,637	16,887
Total Revenues	**$ 102,847**	**$ 97,925**	**$ 99,608**	**$ 101,065**
Expenditures				
Personal Service				
Salaries and Wages	$ 31,373	$ 30,945	$ 31,088	$ 31,372
Pensions	9,932	9,665	9,048	8,176
Fringe Benefits	12,324	12,327	13,423	14,381
Subtotal: Personal Service	$ 53,629	$ 52,937	$ 53,559	$ 53,929
Other Than Personal Service				
Medical Assistance	6,546	6,494	6,494	6,494
Public Assistance	1,651	1,650	1,650	1,650
All Other	40,656	32,895	32,501	32,446
Subtotal: Other Than Personal Service	$ 48,853	$ 41,039	$ 40,645	$ 40,590
Debt Service	6,791	7,995	8,335	8,880
FY 2021 Budget Stabilization & Discretionary Transfers	(6,107)	- - -	- - -	- - -
FY 2022 Budget Stabilization	965	(965)	- - -	- - -
Capital Stabilization Reserve	- - -	250	250	250
General Reserve	300	1,000	1,000	1,000
Deposit to the Rainy Day Fund	500	- - -	- - -	- - -
Less: Intra-City Expenses	(2,084)	(1,449)	(1,450)	(1,444)
Total Expenditures	**$ 102,847**	**$ 100,807**	**$ 102,339**	**$ 103,205**
Gap to Be Closed	**$ - - -**	**$ (2,882)**	**$ (2,731)**	**$ (2,140)**

Source: NYC Office of Management and Budget

Hyman Decl. Ex. X- 6

FIGURE 2
Office of the State Comptroller
Risk Assessment of the New York City Financial Plan
(in millions)

	Better/(Worse)			
	FY 2022	FY 2023	FY 2024	FY 2025
Gaps Per NYC Financial Plan	**$ - - -**	**$ (2,882)**	**$ (2,731)**	**$ (2,140)**
Savings from Staffing Vacancies[1]	1,050	- - -	- - -	- - -
Tax Revenues	800	50	(250)	(350)
Subsidy to MTA Bus	222	65	(21)	(61)
Debt Service	20	150	- - -	- - -
Street Homeless Outreach and Wellness	- - -	(8)	(8)	(8)
DHS Prevailing Wage Security Guards	- - -	(41)	(41)	(41)
Fair Fares NYC	- - -	(71)	(75)	(76)
Rental Assistance	- - -	(200)	(200)	(200)
Public Health Corps	- - -	(200)	(200)	(200)
Labor Savings[2]	- - -	(500)	(500)	(500)
MTA Paratransit Funding	(28)	(55)	(77)	(91)
DHS Single-Adult Shelters	- - -	(146)	(146)	(146)
Charter Tuition	- - -	(282)	(433)	(625)
Student Transportation	(138)	(138)	(138)	(138)
Carter Cases	(142)	(362)	(362)	(362)
Uniformed Agency Overtime	(667)	(508)	(510)	(510)
OSC Risk Assessment	**1,117**	**(2,246)**	**(2,961)**	**(3,308)**
Potential Gaps Per OSC[3,4]	**$ 1,117**	**$ (5,128)**	**$ (5,692)**	**$ (5,448)**

1 The November Plan assumes the City's full-time work force will total 309,859 employees by June 30, 2022, which is 19,560 more than reported as of September 30, 2021. The planned increase appears very unlikely based on recent trends. OSC estimates the City could realize additional savings from lower-than-planned normal gross full-time pay and associated payroll taxes.

2 The November Plan assumes that wage increases during the first two years of the next round of collective bargaining will be funded with productivity improvements. This assumption allowed the City to reduce its reserve for collective bargaining by $53 million in FY 2021, $217 million in FY 2022, $540 million in FY 2023 and $805 million in FY 2024 (a total of $1.6 billion over four years).

3 The November Plan includes a general reserve of $300 million in FY 2022 and $1 billion in each of fiscal years 2023 through 2025. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2023 through 2025. The November Plan also includes reserves of $200 million in FY 2022 and $275 million beginning in FY 2023 to fund potential changes to planned pension contributions from future actuarial audit recommendations. The Retiree Health Benefits Trust, which the City has used in the past as a rainy day fund, had a balance of $3.8 billion as of the end of FY 2021.

4 State law requires surplus resources accumulated by the City to be deposited into a rainy day fund (i.e., the Revenue Stabilization Fund). The November Plan assumes the City will deposit $500 million into the fund in FY 2022, which will increase the balance to $1 billion. These resources would be available to help balance the budget if there were a compelling fiscal need.

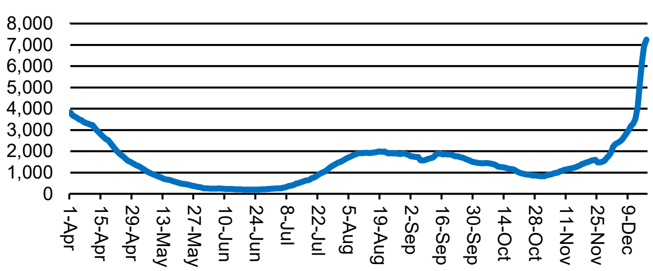
II. The COVID-19 Pandemic in New York City

More than a year ago, the first vaccine against COVID-19 was administered in New York City. By December 19, 2021, almost 13 million doses had been administered in the City and 71 percent of residents had been fully vaccinated, according to City data.[5] Vaccination rates vary by race and ethnicity, however. Rates for Black or African American residents (50 percent), Latino or Hispanic residents (63 percent), and White residents (57 percent) remain behind the overall citywide vaccination rate. As of November 3, 2021, all New York residents aged 5 and older were eligible to be vaccinated.

On June 15, 2021, when 70 percent of adult New York State residents had received at least one dose of a COVID-19 vaccine, the Governor lifted most restrictions, allowing New York City establishments to open at full capacity.

During mid-June 2021, the COVID-19 Delta variant, deemed highly transmissible by the Centers for Disease Control and Prevention (CDC), had taken over as the dominant variant of COVID-19 and new cases started to rise. New cases had averaged about 200 per day, the lowest average of daily new cases since the pandemic began. However, by mid-August, average daily new cases had reached almost 2,000 (see Figure 3).

FIGURE 3
New York City Daily New COVID-19 Cases, 7-day Average



Note: Data included confirmed and probable cases. As a result of reporting delays, the most recent data may be incomplete.
Sources: NYC Department of Health and Mental Hygiene; OSC analysis

[5] According to the CDC, as of December 19, 2021, 61.4 percent of the population nationwide has been fully vaccinated.

Beginning in August 2021, the Mayor implemented vaccine mandates for employees in City-run healthcare facilities with an option for weekly COVID-19 testing, and then implemented the *Key to the City*, requiring employees and customers of indoor entertainment, recreation, dining and fitness venues to have at least one dose of a COVID-19 vaccine.

By November 1, 2021, all City employees were required to have at least one dose of a COVID-19 vaccine or be placed on unpaid leave. Due to staffing challenges, Department of Corrections employees had until December 1, 2021 to receive a first dose of the vaccine.

In recent weeks, a new COVID-19 variant (Omicron), has been identified. The Mayor has extended vaccine mandates to private sector employees and to religious and private schools. Effective December 13, 2021, the Governor has reinstated a mask in all indoor public places unless businesses or venues implement a vaccine mandate. The Mayor has also announced the City will expand testing sites and distribute masks and at-home test kits. The City must remain vigilant to manage further outbreaks of the virus.

Hyman Decl. Ex. X- 8

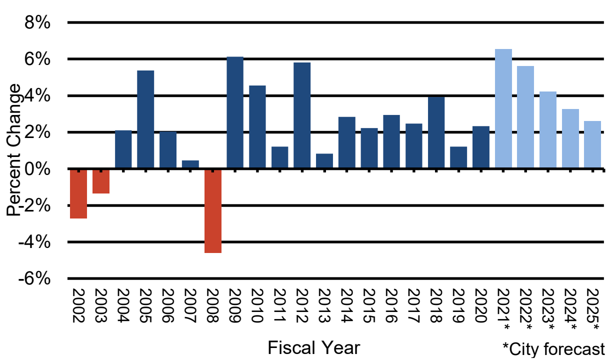
III. Economic Trends

With the November Plan, the current economic backdrop is more unsettled than in June. Despite signs of a sharp rebound in the fourth calendar quarter, full-year gross domestic product (GDP) growth is expected to be 5.7 percent (according to IHS Markit), significantly below the 7.4 percent projected in June. Average annual growth forecast in the outyears (2023-2025) levels off at 2.5 percent, comparable to the pre-pandemic five-year average. Similarly, the growth forecasts for both New York State and the New York City metropolitan area were reduced from 7 percent in June to 6 percent in November for 2021. The growth in the outyears averages 2.9 percent annually for both.

These forecasts were generated prior to the recent Federal Reserve announcement of an accelerated taper (doubling the pace at which it is reducing bond purchases) and signaling a more aggressive rate hike schedule for 2022 which could restrain economic progress.

The City raised its annual New York City real gross city product (GCP) forecast for 2021 from 5.1 percent in April to 6.5 percent in November.

FIGURE 4
Change in NYC Gross City Product



Note: Data prior to 2021 is from the Bureau of Economic Analysis.
Sources: Bureau of Economic Analysis; NYC Office of Management and

Much of this is attributable to strong performance of the securities industry.[6] The City forecasts growth over the period 2022-2025 to average 3.9 percent (see Figure 4).

The securities subsector (within the finance and insurance sector) had an outsized contribution to the City's economy in 2020. Based on the latest county-level data from the Bureau of Economic Analysis, GCP declined by 5.3 percent in 2020. The finance and insurance sector, fueled by the securities sub-sector growth of 4.4 percent, had the second highest growth of any sector (after information services which grew by 4.5 percent). Securities represented a higher share of the City's economy in 2020 than in the prior two years. This could pose a risk in the coming years if other sectors don't recover to enough offset the projected slow down within the securities industry.

The securities industry has not only been a leader in having its workers return to the office, but has also demonstrated resilience during a period of extreme volatility and uncertainty. In 2021, securities industry firms posted the second strongest first-half earnings on record (after 2009), and initial third-quarter results continue to demonstrate strong profitability. However, market volatility has increased in response to fears of inflation and declining future economic growth.

Job growth has also slowed, particularly in the third quarter with the arrival of new COVID-19 variants. At the national level, after averaging more than 710,000 new jobs per month from February through July, the U.S. added just 378,000 jobs on average between September and November. Employment remains 3.9 million jobs below February 2020 pre-pandemic levels.

[6] For more detail, see Office of the State Comptroller (OSC), *The Securities Industry in New York City*, Report 12-2022, October 2021, at https://www.osc.state.ny.us/files/reports/osdc/pdf/report-12-2022.pdf.

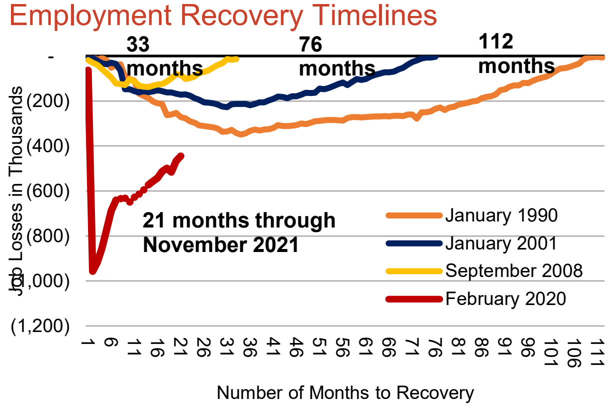
Hyman Decl. Ex. X- 9

While New York State has added 30,000 jobs on average per month this year (seasonally adjusted) through November, employment remains 786,000 below the February 2020 peak. New York City is responsible for more than half the State's job growth, adding 18,600 jobs per month this year, inclusive of September, when the City lost jobs for the first time since January. Employment for New York City remains 444,000 below its pre-pandemic peak, a decline of about 9.4 percent, lagging both the State (8 percent) and nation (2.6 percent).

The City revised its job forecast down in the November Plan and now projects an average monthly year-over-year job growth of 48,300 jobs on a non-seasonally adjusted basis in 2021, a decline from the 151,300 jobs projected in the April Plan. Based on current trends, the City would need to add 62,250 jobs in December for it to reach the Plan's forecast.

The City is currently 21 months into its employment recovery (see Figure 5) and the pace of job growth has slowed from the sharp rebound witnessed in the first 10 months.

FIGURE 5
Employment Recovery Timelines



Sources: NYS Department of Labor, Current Employment Statistics, seasonally adjusted; OMB projections; OSC analysis

The Plan expects employment to reach pre-pandemic levels by the third quarter of 2024, revised from the April Plan's prediction of the first quarter of 2023. This projection assumes that the City will average job growth of 163,400 per year through 2024. In the strongest expansion prior to the pandemic (2010 to 2019), the City added fewer than 100,000 jobs annually. Assuming a similar growth trajectory in this case, the City would reach pre-pandemic levels by the first quarter of 2027.

The forecast for weaker GCP growth in the out-years suggests a return to pre-pandemic levels of employment may take longer than the City projects. In addition, the reliance of the City's jobs recovery on the sectors (leisure and hospitality, administrative services, other personal services and retail) which comprised 70 percent of the job losses in 2020) that were severely impacted by the absence of tourists and office, also suggests the likelihood of a slower jobs recovery.

The risks of COVID-19 variants and subsequent travel restrictions and other mandates present significant challenges to establishing reliable forecasts. The recovery of the hardest hit sectors is largely dependent upon a rebound in tourist activity and the return of office workers.

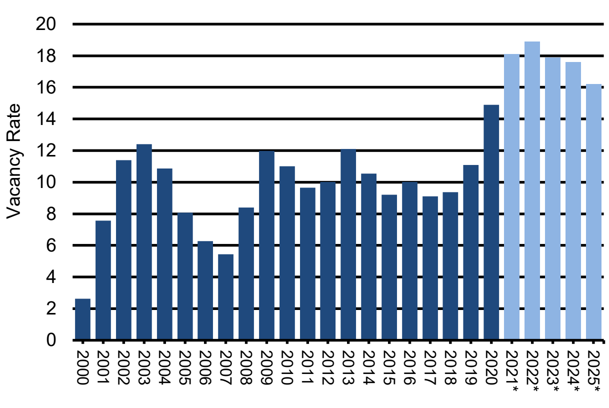
According to NYC & Company (the City's official tourism agency), City tourism is expected to grow 55 percent from 2020 in 2021 to reach 34.6 million visitors, which is about half the pre-pandemic peak (66.6 million in 2019). According to Oxford Economics, total tourism spending is not expected to recover to pre-pandemic levels until 2023, with international visitor spending not returning to pre-pandemic levels until 2026.[7]

[7] For more detail, see Office of the State Comptroller (OSC), *The Tourism Industry in New York City: Reigniting the Return*, Report 2-2022, April 2021, at https://www.osc.state.ny.us/files/reports/osdc/pdf/report-2-2022.pdf.

The timing and extent of the return of office workers following the widespread adoption of telecommuting during the pandemic present another uncertainty. In the latest survey conducted by the Partnership for New York City (taken between October 19 and 29, 2021), 28 percent of Manhattan office workers are in the office on an average workday and 54 percent are still fully remote. While employers in this survey expected 57 percent of office workers to return at least three days a week by the end of January, the recent surge in cases and the emergence of new variants are likely to readjust some of these expectations.

Office vacancies have continued to rise. The November Plan forecasts vacancies to peak in 2022, and not to return to pre-pandemic levels during the Plan period (see Figure 6). According to a recent OSC report, nearly one-fifth (19 percent) of office space in Manhattan remains vacant as of the third quarter of 2021, the highest level in more than 30 years.[8]

FIGURE 6
Vacancy Rate for Manhattan Office Space



Sources: NYC Office of Management and Budget; OSC analysis

While local economic growth is expected to remain strong through the end of 2021, driven by securities industry and technology sector profitability, the outlook in coming years is for slower growth with increasing uncertainty. The expectations for further federal stimulus have been removed and, with the rise in inflation, the Federal Reserve has signaled an increased urgency to begin raising interest rates. Rate hikes would likely impact securities industry profitability as risky assets will become less attractive. Furthermore, the current fluid nature of travel restrictions, both within the United States and internationally, will continue to impact economic activity, potentially extending the period before the recovery of the tourism and office sectors. This coupled with the likelihood that supply chain issues are unlikely to abate before the end of next year, means that volatility is likely to remain. Furthermore, any additional unforeseen stress on this unsettled recovery will likely have a material impact on the City's overall economic prospects.

[8] For more detail, see Office of the State Comptroller (OSC), *The Office Sector in New York City*, Report 11-2022, October 2021, at https://www.osc.state.ny.us/files/reports/osdc/pdf/report-11-2022.pdf.

Hyman Decl. Ex. X- 11

IV. Changes Since the June 2021 Plan

In June 2021, the City projected a balanced budget for FY 2022 and budget gaps of $4.1 billion in FY 2023, $3.8 billion in FY 2024 and $4.1 billion in FY 2025 (see Figure 7; next page). The November Plan incorporates a number of changes since then, almost all of which come from revisions to the City's expenditure forecasts.

Among the changes in the November Plan, the City has identified unplanned agency spending needs, partially restored the "two for one" hiring-and-attrition savings initiative announced during FY 2021, and proposed a citywide savings program that would fully offset these costs over four years. While more than three-quarters of the anticipated savings will come from lower debt service, none of the savings will come from implementing new efficiencies (for more detail, see the "Citywide Savings Program" section).

The new agency needs will increase City-funded spending by $545 million in FY 2022, $390 million in FY 2023 and by smaller amounts in subsequent years. Much of the spending is concentrated in the uniformed agencies (e.g., public safety improvements and emergency relief at the Rikers Island jail), transportation and environmental protection services, fleet electrification, social services (e.g., re-entry housing and supportive services), nonrecurring costs associated with the pandemic, and a one-time increase in funding for taxi medallion loan guarantees.

In addition, the City significantly lowered its forecast of planned pension contributions (by $104 million in FY 2022, $804 million in FY 2023, $1.6 billion in FY 2024, and by $2.4 billion in FY 2025), almost all of which is fueled by higher-than-expected investment returns in FY 2021. These resources will: permit the City to offset an anticipated increase in payouts for judgments and claims against the City ($150 million annually); reduce by one-half the amount of anticipated labor savings (to $500 million annually) beginning in FY 2023; and help narrow the out-year budget gaps to an average of $2.6 billion annually.

The City now forecasts a surplus of $965 million in FY 2022, based largely on the receipt of $750 million in unrestricted federal aid in the current year. The additional federal aid will reimburse the City for pandemic-related expenses that were paid with City fund revenues in FY 2021 but are eligible for reimbursement from the Federal Emergency Management Agency.[9]

The reported out-year gaps, as a share of City fund revenues, now average 3.6 percent, which is the lowest level since FY 2016 when compared to the same point in the budget cycle in prior years. The budgets for these years include a general reserve and a capital stabilization reserve totaling $1.25 billion. If the reserves are not needed for other purposes, they could be used to narrow the projected gaps to an annual average of 1.8 percent.

While the out-year budget gaps, as reported, appear manageable, the City still faces a number of challenges, including uncertainty over the outcome of the next round of collective bargaining, and budgetary risks, such as higher overtime, special education costs and operating subsidies for public transit.

The City also faces a number of risks to its revenue forecasts, including slowing economic growth against a backdrop of potentially higher interest rates, a jobs recovery protracted into the third quarter of 2024 at least, tourism spending not returning to pre-pandemic levels until 2026 (after the financial plan period), and the

[9] Under generally accepted accounting principles, unanticipated categorical aid for prior-year services is recognized in the fiscal year in which the resources are realized.

Hyman Decl. Ex. X- 12

uncertainty regarding whether and when office workers will return fully to in-person work.

The City did not make any significant revisions to its revenue forecast for FY 2022. Since 2010, tax collections have generally exceeded expectations and the additional revenues were available to offset unplanned costs and to close projected budget gaps.

For example, tax collections exceeded the City's initial forecast by an average of nearly $1.9 billion in fiscal years 2018 and 2019. While collections fell short of the City's initial forecast (by $331 million) in FY 2020 after the pandemic took hold, collections greatly exceeded expectations in FY 2021 (by $6.9 billion). In contrast, the City raised its tax revenue forecast by $71 million in the current fiscal year.

FIGURE 7
Financial Plan Reconciliation—City Funds
November 2021 Plan vs. June 2021 Plan
(in millions)

	Better/(Worse)			
	FY 2022	**FY 2023**	**FY 2024**	**FY 2025**
Projected Gaps Per June 2021 Plan	**$ - - -**	**$ (4,051)**	**$ (3,837)**	**$ (4,069)**
Unrestricted Federal Aid (FEMA Rollover)	**750**	**- - -**	**- - -**	**- - -**
Updated Tax Estimates				
Real Estate Transactions	97	- - -	- - -	- - -
Sales Taxes	27	- - -	- - -	- - -
Hotel Taxes	7	- - -	- - -	- - -
Business Taxes	(4)	- - -	- - -	- - -
Personal Income	(73)	- - -	- - -	- - -
Other Taxes	17	- - -	- - -	- - -
Subtotal	**71**	**- - -**	**- - -**	**- - -**
Other Revenue Reestimates	**65**	**50**	**66**	**83**
Total Revenue Reestimates	**886**	**50**	**66**	**83**
Citywide Savings Programs				
Agency Actions	270	80	58	21
Debt Service	238	396	454	472
Subtotal	**508**	**475**	**513**	**493**
Restoration of FY 2021 Savings Initiative	**- - -**	**(84)**	**(86)**	**(87)**
New Agency Needs	**(545)**	**(390)**	**(348)**	**(428)**
Updated Estimates				
Anticipated Labor Savings	- - -	(500)	(500)	(500)
Judgments and Claims	- - -	(150)	(150)	(150)
Pension Contributions	104	804	1,612	2,420
All Other	11	(2)	(1)	(1)
Subtotal	**115**	**153**	**961**	**1,769**
Net Change	**965**	**204**	**1,106**	**1,929**
Gaps to Be Closed Before Prepayment	**$ 965**	**$ (3,847)**	**$ (2,731)**	**$ (2,140)**
FY 2022 Prepayment of FY 2023 Expenses	(965)	965	- - -	- - -
Gaps to Be Closed Per November 2021 Plan	**$ - - -**	**$ (2,882)**	**$ (2,731)**	**$ (2,140)**

Note: Columns may not add due to rounding.
Sources: NYC Office of Management and Budget; OSC analysis

X. Semi-Autonomous Entities

Department of Education

Like most school districts, the New York City school district has been impacted by the pandemic in a number of ways. One of the most important has been a significant drop in student enrollment over the past two years. Nevertheless, with the help of emergency federal aid, the City increased FY 2022 education spending by $3.3 billion over FY 2021 levels. The November Plan allocates almost $37.8 billion to the Department of Education (DOE) for FY 2022, amounting to 36.7 percent of the City's total budget. The City is expected to fund almost $19.3 billion (51.1 percent) of the total, with the remainder funded by the State (34.1 percent) and the federal government and other sources (14.8 percent).

Federal aid and other sources have provided an annual average of 7.8 percent of the DOE's budget over the previous 10 years, while City funds have accounted for an average of 56.4 percent. Federal funds account for an unusually large share of the Department's budget during the financial plan period thanks to the provision of $6.7 billion in federal relief funds through FY 2025.[17] A recent report from OSC provides detail on how these funds will be used, and the out-year risks associated with their use.

City-funded staff at the DOE decreased by 5,940 positions between June 2020 and September 2021 (the most recent data available). However, this loss was partially offset by an increase of more than 4,000 positions funded by State and federal dollars, many of which are likely to return to City-funded status as emergency federal funds are depleted. The November Plan expects the Department to add 8,578 total-funds positions (including 6,360 City-funded) by June 2022, a target that it seems unlikely to reach. Thus, the City may recognize some savings related to unfilled positions at the DOE.

Despite such potential savings, the November Plan does not address a number of pre-existing expenses that are likely to increase in future years. While some of the extraordinary federal aid may be used to mitigate these costs initially, they are systemic and will continue to recur after federal aid is exhausted.

City spending on Carter cases (federally-mandated special education services) reached $807 million in FY 2021, more than two and a half times the amount budgeted five years earlier. The November Plan anticipates that spending on Carter cases will decrease by $142 million in FY 2022 before falling another $220 million in FY 2023 and remaining flat thereafter. Carter case spending, however, has increased by an average of $99 million annually over the past five years. Until the City can demonstrate that spending for Carter cases has actually begun to decline, these costs are likely to exceed estimates beginning in FY 2022. Such expenses may be even higher because parents have challenged the City's ability to provide adequate services during the pandemic.

Similarly, the cost of student transportation has grown faster than anticipated, requiring the City to add funding in each of the past five fiscal years (averaging $138 million annually). The City added $359 million for this purpose over the course of FY 2021 alone, but has not reflected such increases in later years.

Additionally, the financial plan does not reflect future increases to charter school per-pupil tuition rates that are mandated in State law. The City's preliminary estimates show that such costs

[17] This calculation includes all Coronavirus Response & Relief Supplemental Appropriations (CRRSA) and American Rescue Plan (ARP) funding allocated to the DOE in FYs 2022-25. It excludes $335 million in federal relief funds used for education which are held in other agencies.

Hyman Decl. Ex. X- 14

to the City could increase by $282 million in FY 2023, $433 million in FY 2024, and $625 million in FY 2025 if not offset by additional State aid.

Finally, the City plans to use a portion of the one-time, emergency federal aid to implement permanent, recurring initiatives such as universal 3-K. Once the federal funds are exhausted in FY 2025, the City will need to devote additional resources to continue providing these programs.

Metropolitan Transportation Authority

The MTA is facing challenges in closing the budget gaps in its financial plan, relying heavily on federal aid and funds from deficit borrowing. Although riders have begun to return, in November 2021, subway ridership was still only 44 percent of 2019 ridership, bus ridership was at 64 percent and MTA weekday commuter railroad ridership was at around 50 percent of 2019 levels. MTA bridge and tunnel crossings, however, had returned to pre-pandemic levels.

On November 17, 2021, the MTA updated its previous financial plan which had been released in July. The MTA's November plan forecasts balanced budgets through 2025 but makes some changes in its July assumptions. The MTA's November plan forecasts $1.5 billion of additional dedicated tax revenues as economic activity is returning faster than the MTA had expected, and an increase in corporate taxes is also bringing in additional revenue.

As a result of this increased revenue, the MTA now plans to defer the fare increase that was planned for 2021 and remove proposed service cuts as well as savings from a wage freeze for a portion of its workforce as had been assumed in July. The MTA's November plan assumes the implementation of a 4 percent fare yield increase in July 2022 (delayed from November 2021) and 4 percent increases in fare and toll yields in March 2023 and March 2025. These are expected to bring in $1.9 billion over the financial plan period.[18] The MTA's November Plan assumes $1.4 billion of borrowing for operating purposes will be needed to close the budget gap in 2025, a slight increase from what was assumed in July.

A recent report released by OSC found that the MTA's transformation plan consolidated some functions, but most of its savings were from reducing maintenance and operational positions and not administrative positions as first envisioned. Although the MTA has ended its transformation plan, the MTA's November plan expects the consolidated functions to bring in an additional $150 million annually in unspecified savings from 2022 through 2025. It is not yet clear how the MTA will balance its budgets after federal operating assistance is exhausted and if ridership does not return to pre-pandemic levels because of increased telecommuting.

The MTA had a potential funding gap in its 2020-2024 capital program because debt capacity was used to issue $2.9 billion in Bond Anticipation Notes (BANs) for operating purposes. The recently passed federal Infrastructure Investment and Jobs Act is expected to bring the MTA as much as $10 billion over the five-year duration of the bill (which will overlap with the next five-year capital program) which could offset the risk to the current capital program if the MTA were to permanently finance the BANs with long-term debt, as it has indicated in its financial plan. The additional funds could also allow the MTA to lower its projected borrowing for capital work and related debt service.

The City may be required to allocate additional funds for the MTA that are not currently included

[18] The MTA board raised tolls by 6 percent in April 2021 but deferred its decision on raising fares at the time.

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